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RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
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SUBJECT: LAMY AND SOJO ON THE DOHA ROUND AND THE  
TRADE-DEVELOPMENT NEXUS

#### Summary

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¶1. WTO Director General Lamy and Mexico's Economy Secretary spent two hours discussing the status of the Doha round of trade negotiations and the stake that Mexico and other developing economies have in its successful conclusion. Lamy said the three main challenges are getting the U.S. to offer deeper cuts in agricultural subsidies, getting the Europeans, Japanese, and Koreans to slash their agricultural tariffs, and getting key developing countries like India and Argentina to reduce tariffs on industrial goods. The two fielded a number of questions from the audience on China's role in global commerce, the impact of rising agricultural commodity prices, how best to address trade in textiles, and the advisability of closer coordination between the various international economic institutions. End summary.

#### Lamy - A Deal is Close, But Failure a Real Possibility

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¶2. At a March 23 forum hosted by Mexico's Secretariat of Economy, Pascal Lamy (WTO DG) and Eduardo Sojo (Secretary of Economy) gave presentations on the state of play in the Doha talks and why a successful outcome is important to Mexico and other developing economies. On the former topic, Lamy said a deal was within reach but would not be easy. He said there are three key ingredients to reaching a deal: 1) deeper cuts in U.S. agricultural subsidies, with other countries following the U.S. lead; 2) deeper cuts in EU, Japanese, and Korea agricultural tariffs, with developing countries following their lead (and refraining from abuse of the 'sensitive products' category to avoid painful concessions); and 3) real reductions in industrial tariffs by developing countries like India and Argentina. In addition to these three, Lamy also noted that a number of countries, including Mexico, had yet to table revised and improved services offers. Aside from calling out Mexico on its lack of a new services offer, Lamy praised the country as one of those that could be depended on for support in pushing Doha to the finish line. (Note: Lamy is in the middle of a road trip to rally global support for the round. He arrived in Mexico from Indonesia and is headed for Africa next. End note.) In response to a question from the audience, he said that he believed there was political will in the U.S. to make the

needed concessions (on agricultural subsidies and additional discipline for anti-dumping measures), and that there was a reasonable chance that the U.S. Congress would approve a deal, since in return America would get substantially more market access for its services and agricultural and industrial goods in large and growing developing economies like India, China, and Brazil. Perhaps even more important to the U.S., he opined, was our long-standing strategic interest in a strong global trade system. He warned, however, that the chances for success could drop significantly if the negotiations were not concluded before the expiration of the President's Trade Promotion Authority this summer.

Sojo -- More World in Mexico, More Mexico in the World  
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13. Sojo recited the great benefits that have accrued to Mexico from its two-decades-long policy of market opening, and said President Calderon was committed to further integration into the global economy under the slogan found in the para header above. He pledged Mexico's support for a successful conclusion to the round, saying that a collapse would lead to more protectionism worldwide. Success, on the other hand, would help achieve the goals of not just Mexico, but of most developing countries, including gaining additional access to fellow developing country markets and leveling the playing field with the advanced economies in terms of agricultural subsidies and trade remedies. Lamy amplified on this point, noting that even a country with as many free trade agreements as Mexico had very little leverage over its trade partners on these sorts of issues, and that the multilateral venue was really the only way to achieve real progress on them.

Trade Necessary but Insufficient to Tackle Poverty

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14. In response to a question from the audience, Lamy gave an eloquent description of the three necessary conditions for combating poverty in developing countries. Of the three, the WTO plays the lead role on the first, a supporting role on the second, and no role on the third. 1) Economies must open up. We know that economies that close themselves off see increased poverty, and we know that greater openness at least provides the opportunity for greater wealth. The WTO was established precisely to open up the economies of its members, thus its lead role on working to achieve this condition. 2) Economies must have the capacity to benefit from the opportunities presented by greater openness. Without the ability to meet health, security, and safety standards of target markets, without the infrastructure necessary to move products and people across its borders, a country will profit little from openness. Lamy said that if the Doha round is successful, trade capacity building for developed countries will be a major component of the WTO's future responsibilities. 3) Only domestic political choices can assure that additional wealth actually makes its way into the pockets of the poor, making this condition the responsibility of each country's government. Picking up on this point, Sojo said that Mexico is a country in which the third condition has not yet been met. He said the Calderon administration was cognizant of the country's huge disparities in wealth and the consequent need to democratize economic opportunity. He said the government would intervene selectively to ensure that small and medium-sized enterprises, poorer regions of the country, and other marginalized groups would be able to plug into the national and global economies. Along these same lines, the private sector participant on the panel -- Cesar de Anda, head of Mexico's Poultry Association -- emphasized that Mexico needed to undertake deep structural reforms to prepare itself to compete internationally, especially if the Doha talks result in a new deal that further lowers world trade barriers.

15. Several questions from the audience asked about dealing with the commercial rise of China, in particular its compliance (or lack thereof) with its WTO obligations and its use of allegedly unfair trade practices. Lamy replied that China did not have a perfect compliance record, and that it was prone at times to "innovative" interpretations of its obligations, but that in general it had implemented its commitments in good faith. With regard to unfair trade practices, Lamy said the whole point of getting China into the WTO (for which Beijing paid a high price in terms of market access) was to subject it to the same enforceable rules that all other WTO members are supposed to abide by. Sojo pointed out that Mexico has recently joined a case against China for fiscal incentives and domestic content rules that Mexico feels unfairly discriminate against foreign products.

16. One questioner asked whether rising prices for agricultural commodities like corn might disrupt international trade. Lamy responded that market circumstances sometimes lead to unpleasant situations, but that distortions always make them even worse, referring specifically to U.S. subsidies for corn production, U.S. tariffs on ethanol imports, and Mexican restrictions on corn imports. Sojo pointed out that high agricultural commodity prices might make it politically easier for the U.S. to make Doha concessions on cutting its domestic farm support payments. De Anda added that these high prices were raising costs in the milk, meat, and egg industries, and were yet another reason why Mexico's agriculture sector needed to upgrade its technological and productive capacities.

17. In response to a suggestion that textiles and apparel be dealt with separately from other industrial goods (implying a preference for slower tariff reductions for these products), Lamy noted that countries like Mexico, Turkey, and Morocco, which benefit from and want to maintain preferential tariff treatment in the U.S. and EU markets, have requested a review of the 2005 elimination of global quotas on textiles and

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clothing, which forced them to compete somewhat more directly with the Chinese, Indians, and Bangladeshis. However, he pointed out that integrating the rag trade into the mainstream of global commerce was exactly the result that developing countries had sought and won in the Uruguay Round.

He warned that countries with a competitive advantage in this industry, like Pakistan, would be hardpressed to sign on to a Doha agreement that would deny them access in their most promising market sector.

18. Finally, asked about coordination (or lack thereof) among the separate international economic institutions, Lamy said it was important that these organizations respect the boundaries between their respective areas of competency. That said, he highlighted a recent study that the WTO had co-sponsored with the International Labor Organization on the effect of trade liberalization on job markets, two issues that are clearly and closely linked in the public's mind, regardless of the bureaucratic division of labor in Geneva. He said there was room for improved coordination among all international institutions.